

Message Text

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ACTION EUR-12

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TAGS: ECON OECD JA

SUBJ: OECD EDRC ANNUAL REVIEW OF JAPAN

REF: OECD PARIS 15493

1. SUMMARY. AT JUNE 20 OECD MEETING EMBASSY RECOMMENDS
US TAKE MIDDLE GROUND BETWEEN ASSOCIATING FULLY EITHER WITH
OECD SECRETARIAT CRITICISM OF CURRENT GOJ POLICY STANCE OR
WHAT WE EXPECT WILL BE FAIRLY VIGOROUS GOJ DEFENSIVE POSTURE.
SOME SPECIFIC SUGGESTIONS ARE OUTLINED BELOW. END SUMMARY.

2. REFTEL PRESENTS SOMETHING OF A DILEMMA FOR USG (AND EMB
TOKYO) AND ALSO FOR GOJ. IN TERMS OF OUR OWN SHORT-TERM
(6-12 MONTHS) ECONOMIC INTERESTS, US ASSOCIATION WITH MULTI-
LATERAL ADVICE TO GOJ TO ADOPT MORE VIGOUOUS STEPS TO
STIMULATE JAPANESE RECOVERY WOULD PROBABLY BE JUSTIFIED (ON
GROUNDS OF EXPECTATION THAT MORE RAPID EXPANSION IN
JAPAN WOULD INCREASE JAPANESE IMPORTS, DAMPEN EXPORTS A
BIT AND HELP TO NIP INCIPIENT JAPANESE GLOBAL TRADE SUR-
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PLUS BEFORE IT REACHES DESTABILIZING MAGNITUDE). FROM

LONGER-TERM PERSPECTIVE, ADVANTAGES TO US OF MORE RAPID JAPANESE RECOVERY ARE AMBIVALENT AT BEST: IT IS NOT IN OUR INTEREST (AND CERTAINLY NOT JAPAN'S) TO SEE RESUMPTION OF HIGHER RATES OF JAPANESE INFLATION AND ONE COULD ARGUE THERE ARE BENEFICIAL INDIRECT SIDE EFFECTS FOR US IN ENCOURAGING GOJ TO KEEP ITS GROWTH SIGHTS LOW (E.G. LOWER DEMAND FOR OIL AND OTHER RAW MATERIALS, LESS VIGOROUS EXPORT PENETRATION TO PAY FOR RISING IMPORTS, AND SMALLER BORROWING ABROAD TO FINANCE DOMESTIC ACTIVITIES).

3. WE THINK IT LIKELY GOJ SPOKESMAN AT JUNE 20 MEETING WILL RESIST SECRETARIAT ASSESSMENT THAT (A) GOJ MEASURES THUS FAR HAVE BEEN TOO MODEST, (B) RECOVERY MAY PETER OUT, AND (C) JAPAN WELL PLACED TO LEAD WORLD ECONOMIC EXPANSION (PARA 5 REFTEL). THESE ASSESSMENTS RUN DIRECTLY CONTRARY TO OFFICIAL GOJ APPRAISAL OF CURRENT SITUATION AND NEAR-TERM OUTLOOK AND LEADERSHIP IS NOT JAPAN'S STRONG SUIT. MOREOVER, IF SIGNIFICANT NUMBER OF MAJOR OECD COUNTRIES (AND PARTICULARLY US) SUPPORT SECRETARIAT ASSESSMENT, THIS WILL RECEIVE MAJOR PUBLIC ATTENTION IN JAPAN AND MAY BE INTERPRETED AS INTERNATIONAL REBUKE TO DEPUTY PM FUKUDA--ANOTHER REASON GOJ REP LIKELY TO RESIST. AT SAME TIME, GOJ REP WILL KNOW THAT SECRETARIAT ASSESSMENT IS CLOSE TO THAT OF JAPANESE BUSINESS COMMUNITY (AT LEAST WITH RESPECT POINTS A AND B CITED ABOVE). IN ADDITION, GO REP KNOWS THAT HIS GOVT DOES NOT REALLY BELIEVE OFFICIAL FORECAST OF REAL GNP INCREASE OF 4.3 PERCENT IN JFY 75 ENDING MARCH 31, 1976 (FUKUDA HAS PRIVATELY TOLD NUMBER OF PEOPLE 3 PERCENT OR EVEN LESS IS MORE LIKELY.) FINAL ELEMENT CONTRIBUTING TO DIFFICULTY FOR GOJ REP IS POSSIBILITY GOJ MAY FIND IT CONVENIENT TO HAVE SOME MULTILATERAL PEG ON WHICH TO HANG CHANGE IN GOJ POLICY WHEN JAPAN DECIDES TIME HAS COME TO DO SO, I.E. WHILE WE DOUBT GOJ WOULD SHIFT GEARS AS RESULT OF EDRC MEETING, FUKUDA MAY BE RELUCTANT TO BOW SIMPLY TO JAPANESE BUSINESS PRESSURE IN NEXT FEW MONTHS AND IMPLICITLY CONCEDE HE HAS KEPT LID ON TOO TIGHTLY AND TOO LONG.

4. BIGGEST UNCERTAIN ELEMENT IN JAPANESE ECONOMY IS CONSUMER SPENDING. TRADITIONAL POLICY TOOLS USED IN OTHER LIMITED OFFICIAL USE

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COUNTRIES, E.G. TAX CUTS ARE NOT RPT NOT NEEDED HERE AT THIS TIME GIVEN HIGH (AND RISING) RATES OF SAVING. PROBLEM IS PRIMARILY PSYCHOLOGICAL CLIMATE OF WORRIES ABOUT FUTURE COUPLED WITH SHORT WORK WEEK AND HIGH (BY JAPANESE STANDARDS) RATE OF UNEMPLOYMENT. LARGEST AREA OF DOMESTIC DEMAND SUSCEPTIBLE OF BEING FED BY DIRECT GOJ ACTION IS PRIVATE HOUSING. GOJ HAS BEGUN TAKE SOME STEPS IN THIS DIRECTION BUT CONSIDERABLY MORE IS POSSIBLE.

BUSINESS NEEDS RESUMPTION OF CONSUMER SPENDING (AND FOREIGN DEMAND) TO INCREASE RATE OF UTILIZATION OF EXISTING PLANT AND EQUIPMENT EVEN MORE THAN IT NEEDS NEW INVESTMENT. THUS WE ARE INCLINED TO THINK OECD SECRETARIAT EMPHASIS ON RESTRICTIVE GOJ MONETARY POLICY SOMEWHAT MISPLACED IN RELATION TO PRIORITY NEEDS FOR STIMULATION HERE (ALTHOUGH WE DO SEE SOME RISK THAT IF LARGE INTEREST RATE DIFFERENTIALS PERSIST THERE MAY BE EXCESSIVE CAPITAL INFLOW INTO JAPAN).

5. TRYING TO BALANCE FOREGOING CONSIDERATIONS, EMBASSY SUGGESTS USOECD CONSULT WITH GOJ DELEGATION PRIOR TO MEETING IN ATTEMPT ASCERTAIN LINE THEY PLAN TO TAKE AND WHAT KIND OF OUTCOME WOULD BE POLITICALLY ACCEPTABLE TO GOJ. IF OUR GUESS PARA 3 ABOVE IS REASONABLY ACCURATE, US MIGHT OFFER TO LEND ITS SUPPORT FOR RETENTION OF THOSE ELEMENTS OF SECRETARIAT APPRAISAL GOJ LIKES (E.G. PHRASE PARA 5 REFTEL ABOUT IT BEING OBVIOUSLY UNWISE TO STIMULATE A VERY STRONG UPTURN IN DEMAND SPARKING NEW INFLATIONARY SPIRAL) IN RETURN FOR GOJ ACCEPTANCE OF LANGUAGE IN FINAL REPORT SUGGESTING GOJ MONITOR DOMESTIC AND INTERNATIONAL ECONOMIC DEVELOPMENTS MORE INTENSELY THAN USUAL IN COMING FEW MONTHS IN ORDER TO ENSURE THAT PACE OF JAPANESE RECOVERY DOES NOT HOLD BACK HEALTHY RECOVERY OF WORLD ECONOMY. A "WATCH OUT" STANCE WILL BE EASIER FOR GOJ TO SWALLOW THAN AN APPRAISAL THAT GOJ POLICY IS INADEQUATE AND THAT JAPAN SHOULD LEAD THE PACK.

6. PRIVATE JAPANESE FORECASTS FOR PACE OF RECOVERY ARE STILL ALL OVER THE LOT. A RECENT COMPILATION LISTED JFY 75 REAL GROWTH GUESSES AS FOLLOWS: NOMURA RESEARCH 2.1 PERCENT, JERC 2.6 PERCENT, KEIDANREN 3.4 PERCENT, DAICHI KANGYO BANK 4.2 LIMITED OFFICIAL USE

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PERCENT, MITSUBISHI RESEARCH INSTITUTE 4.7 PERCENT, BANK OF TOKYO 5.1 PERCENT, YAMAICHI SECURITIES INSTITUTE 6.9 PERCENT, TOKAI BANK 7 PERCENT, AND RESEARCH INSTITUTE ON NATIONAL ECONOMY 8.5 PERCENT.

7. FOR LATEST EMBASSY ASSESSMENTS OF JAPANESE ECONOMY AND ECONOMIC POLICIES, USOECD MAY WISH TO REVIEW EMBTEL 5920 MAY 2, PARAS 6 AND 8 OF EMBTEL 7213 JUNE 2 AND EMBTEL 8033 JUNE 17.
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